



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS ELECTRONIC SYSTEMS CENTER (AFMC)  
HANSCOM AIR FORCE BASE, MASSACHUSETTS



MEMORANDUM FOR (SEE DISTRIBUTION)

JUL 16 2005

FROM: ESC/CC  
9 Eglin Street  
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SUBJECT: AFPEO/C2&CS Award Fee Plan Guidance

Award Fee can be an effective means of ensuring contractor performance. In order to be most beneficial to the program, an Award Fee Plan must be developed that will motivate and incentivize the contractor. To the greatest extent practical, I would like to see Award Fee planning implemented consistently across programs where Award Fee applies within the PEO C2&CS portfolio.

The Award Fee pool should be based upon risk and required investment by the contractor. It should be significant enough to motivate performance and be in balance with all aspects of the program incentive structure. Consistent with program deliverables and requirements:

- Award Fee milestones should be event-driven not date-driven (design review, delivery, etc.)
- Award Fee should be tightly coupled to objective performance measures
- Award Fee pool should be heavily weighted towards key contract deliverables/activities (e.g., final delivery or completion)
- For subjective ratings, ensure sufficient categories exist to distinguish between performance levels and that the words support percentages (e.g. 51% is not "very good")
- Rolling over Award Fee from one period to the next should not be automatic, but can be a valuable part of the incentive structure. Roll over should be done only when there are clear advantages to doing so, subject to fiscal law constraints (e.g., Bona Fide Needs Rule)
- Award Fee pools should only be adjusted for a change in contract work scope or a negotiated Request for Equitable Adjustment (REA) – Award Fee pools should not be adjusted for cost growth
- Serious consideration should be given to the base/minimum fee

I do not advocate specifying an arbitrary percentage of objective vs. subjective measures; however, I would like to see objective measures substantially increased across the portfolio. I encourage programs to review Award Fee plans to determine if more objective measures can be implemented during the current period and built into the plan for future periods.

In order for Award Fee to be fully effective there needs to be on-going communication between the program office and the contractor. Contractors should be kept apprised of how the government views their performance and program managers should provide a fair and honest assessment between Award Fee sessions and at the close of the Award Fee period. There should be no surprises at the close of the Award Fee period.

Remember, SAF/AQ policy requires prior notification of proposed Award Fee ratings on ACAT I and special interest/politically sensitive programs prior to contractor notification. When Award Fee briefings are to be presented to the PEO or Deputy for Acquisition, read-ahead packages must include a draft e-mail and draft contracts letter to help speed implementation.

This guidance and examples of plans consistent with this approach can be found on the Centernet's Program Manager's Toolkit at [Award Fee/Term Incentive Guidance](#).

My process owners for this initiative are Mr. Ed Bohn, ESC/CCZ, ext. 3-4165 and Mr. Paul Commeau, ESC/AE, ext. 3-5479.



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